

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4890-01
Bill No.: HB 2232
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal; Business and Commerce
Type: Original
Date: February 11, 2020

Bill Summary: This proposal modifies provisions relating to the assessment of certain property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Blind Pension Fund (0621)	\$0	\$0 or (Unknown) to Unknown	\$0 or (Unknown) to Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or (Unknown) to Unknown	\$0 or (Unknown) to Unknown

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	\$0 or (Unknown) to Unknown	\$0 or (Unknown) to Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from **State Tax Commission** assume this proposal has an unknown fiscal impact, the proposed legislation allows the commercial subclass the same occupancy provisions as currently provided in RSMo 137.082. The assessor would be allowed to place on the tax rolls the value of the commercial property one month after the property is occupied (current law provides said property to be placed on the tax rolls effective January 1 of the following year). This proposal provides for a voluntary adoption of the law by the county governing authority. This proposal also permits the assessor to remove property destroyed by natural disaster (as defined by statute) from the tax rolls. The proposed legislation provides for an increase in collection fees for the assessment fund of the county. This may have an unknown fiscal impact on school districts and other taxing jurisdictions who rely on property taxes as their source of revenue as there may be a decrease in property tax revenues as a result of the additional fees.

Officials from **Office of Administration - Budget and Planning (B&P)** assume this proposal may impact total state revenues (TSR). This proposal may impact the calculation under Article X, Section 18(e).

Subsection 137.084.1 requires newly constructed and occupied commercial property to be assessed as improved property on the first day of the month after occupancy. Newly constructed property that has not been occupied, shall not be assessed as improved property until occupancy or January first of the following year. This provision will only apply to counties that have adopted the provisions laid out in Section 137.084. B&P notes that this provision may impact revenues to the Blind Pension Trust Fund if counties adopt this provision and if this practice delays or speeds up the start of assessments for improved properties.

Subsection 137.084.6 would allow counties to deposit an additional amount of the ad valorem property taxes into the county assessment fund for the cost of collections. The amounts allowed under this subsection are in addition to the amounts allowed under Section 137.720. St. Louis County would be allowed to deposit an additional 10%, all other counties of the 1st classification would be allowed to deposit 0.1%. All 2nd, 3rd, and 4th classification counties would be allowed an additional 0.2%.

Subsection 137.084.9 would require county assessors to remove any commercial property improvements from the tax rolls on June 1st of any year in which such property has been destroyed by a natural disaster. B&P notes that this provision could reduce revenues to the Blind Pension Trust Fund if such destroyed property was not previously removed from the county assessor tax rolls.

ASSUMPTION (continued)

Any person who fraudulently applies to have their property removed shall, in addition to other penalties, be assessed double the value of the property.

Subsection 137.084.10 would allow counties to recover the loss of revenue from subsection 137.084.9 by increasing their tax levy up to the rate limit voters had previously approved.

Officials from **Ste Genevieve County Assessor's Office** state Ste Genevieve County is an "Occupancy" County per RSMO 137.082 on Residential property. The Assessor's office will have additional responsibilities, and this warrants a percentage of the ad-valorem taxes collected to be deposited into the Assessment Fund. At this time, I have no way of calculating the additional revenue that would be generated to the County or Assessment Fund.

Officials from the **Warren County Assessor's Office** assume this proposal is about the "timing" in which the value would be added or removed to the tax rolls of the Assessor. About 1/3 of the counties have adopted occupancy law for residential classification.

If a county were to adopt the provisions of 137.084, the Assessor would have additional duties and responsibilities. Instead of adding the new construction of any "commercially" classed piece of property the January following completion, an Assessor would add the property to the local tax rolls on the 1st of the month in which the new construction was completed and occupied, and the value would be prorated for that year. Example: You build a bank, and the parking lot, lights, fencing, signage, drive thru and bank itself are complete and staffed and open to the public for business on 4/1/2021. The true market value the Assessor has found to be \$1 million. However, the provisions of 137.084 have been adopted, so the Assessor would prorate for 8 months of occupancy in 2021 at a market value of \$666,666 and an assessed value of \$213,333, and the following year 2022 full value would be placed on the tax rolls (\$1 million TVM and \$320,000 AV) Under current law, the Assessor would put the value on the local tax rolls January 1st following completion (1/1/2022) at \$1 million true market value and \$320,000 assessed value.

Conversely, these provisions allow the Assessor to remove commercial classed property, on a prorated bases if the property is destroyed by a natural disaster (fire, tornado, earthquake). Upon rebuilding the property would be added back on a prorated bases as well.

Officials from the **Department of Revenue**, the **Department of Social Services**, and the **Office of the State Auditor** each assume the proposal will have no fiscal impact on their respective organizations.

ASSUMPTION (continued)

Oversight assumes section 137.084.1 would allow all counties to adopt the occupancy law for commercial property which allows property to be added to the assessors books once it has been occupied or January first of the year following the year in which construction is complete. Currently commercial properties are added to the assessors books January first of the year following the year in which construction is complete. Oversight assumes this could increase or decrease the assessed values and subsequent tax revenues for a commercial property that is added to the assessors books before or after it otherwise would have been. Oversight will show a range of impact from \$0 (not adopted by the governing board) to unknown negative to unknown positive impact to local political subdivisions and the Blind Pension Fund.

Oversight assumes section 137.084.6 would increase revenues to the county assessment fund and would decrease distributions to the other local political subdivisions.

Oversight assumes section 137.084.9 would decrease assessed values and subsequent tax revenues for commercial property that is removed from the assessors books before it would have otherwise. Oversight will show a range of impact of \$0 (no properties destroyed by a natural disaster or not adopted) to an unknown negative impact to local political subdivisions and the Blind Pension Fund.

In addition, any person who applies fraudulently to remove their property from the assessors books shall be assessed double the value of property. Oversight assumes this provision could increase assessed values and subsequent tax revenues. Oversight will show a range of impact of \$0 (no properties fraudulently reported as destroyed or not adopted) to an unknown positive impact to local political subdivisions and the Blind Pension Fund.

Oversight assumes section 137.084.10 would allow local political subdivisions to collect lost revenue due to subsection 137.084.9 by raising their tax levy.

Although the effective date of this proposal, if passed, would be FY 2021 (August 2020), this would be midway through the assessment year; therefore, officials from the **State Tax Commission** indicated this proposal would likely take effect the following calendar year, 2021, with impacted revenues occurring in FY 2022 (December 2021) if the governing body elects to adopt these provisions.

FISCAL IMPACT - State Government

FY 2021
 (10 Mo.)

FY 2022

FY 2023

BLIND PENSION FUND

Revenue (Gain) - from commercial property being added to the assessors books before the January following completion **if** provisions are adopted - §137.084.1

\$0

\$0 or
 Unknown

\$0 or
 Unknown

Revenue (Loss) - from commercial property destroyed by a natural disaster that is removed from the assessors books before it otherwise would have been - §137.084.6

\$0

\$0 or
 (Unknown)

\$0 or
 (Unknown)

Revenue (Gain) - penalty of doubling the assessed value of property fraudulently reported as destroyed §137.084.6

\$0

\$0 or Unknown

\$0 or Unknown

**ESTIMATED NET EFFECT ON THE
 BLIND PENSION FUND**

\$0

**\$0 or
 (Unknown) to
Unknown**

**\$0 or
 (Unknown) to
Unknown**

FISCAL IMPACT - Local Government

FY 2021
(10 Mo.)

FY 2022

FY 2023

LOCAL POLITICAL SUBDIVISIONS

Revenue (Gain) - from commercial property being added to the assessors books before the January following completion - §137.084.1

\$0

\$0 or
Unknown

\$0 or
Unknown

Revenue (Gain) - County Assessors - increased distributions to county assessment fund - §137.084.6

\$0

\$0 or
Unknown

\$0 or
Unknown

Revenue (Loss) - decreased revenue from increased distributions to county assessment fund - §137.084.6

\$0

\$0 or
(Unknown)

\$0 or
(Unknown)

Revenue (Loss) - from commercial property destroyed by a natural disaster that is removed from the assessors books before it otherwise would have been - §137.084.9

\$0

\$0 or
(Unknown)

\$0 or
(Unknown)

Revenue (Gain) - penalty of doubling the assessed value of property fraudulently reported as destroyed §137.084.9

\$0

\$0 or Unknown

\$0 or Unknown

Revenue (Gain) - recovery of lost revenue from property destroyed by a natural disaster §137.084.10

\$0

\$0 or Unknown

\$0 or Unknown

**ESTIMATED NET EFFECT ON
LOCAL POLITICAL SUBDIVISIONS**

\$0

**\$0 or
(Unknown) to
Unknown**

**\$0 or
(Unknown) to
Unknown**

FISCAL IMPACT - Small Business

Oversight assumes there could be an impact to small businesses as a result of this proposal.

FISCAL DESCRIPTION

This bill creates several new provisions related to the taxation of commercial property:

(1) This bill would require new or improved commercial property to be assessed and taxed on the first day of the month following the date the property is occupied or January 1st of the following year in which construction or improvements are completed in any county or city not within a county that adopts the provisions of this bill. The assessor may consider a commercial property occupied upon personal verification or if two of the following conditions are met: ·

An occupancy permit has been issued for the property; · A deed transferring ownership from one party to another has been filed with the recorder of deeds' office subsequent to the date of the first permanent utility service; · A utility company providing service in the county has verified a transfer of service for property from one party to another; · The person or persons occupying the newly constructed property have registered a change of address with any local, state, or federal governmental office or agency.

In implementing the provisions of this bill, the assessor may use occupancy permits, building permits, warranty deeds, utility connection documents including telephone connections, or other official documents as may be necessary to discover the existence of newly constructed properties. No utility company will refuse to provide verification monthly to the assessor of a utility connection to a newly occupied commercial property.

2) In the event that an assessment under (1) above is not completed until after the deadline for filing appeals in a given tax year, the owner of the newly constructed property may appeal this assessment the following year to the county Board of Equalization (BOE) and may pay any taxes under protest provided that the payment under protest will not be required as a condition of appealing to the county BOE. The collector will impound the protested taxes and will not disburse the taxes until resolution of the appeal.

(3) In counties that adopt (1) through (4) of the summary under the provisions of this bill, an amount not to exceed 10% of all ad valorem property tax collections on newly constructed and occupied commercial property allocable to each taxing authority within counties of the first classification having a population of 900,000 or more, one-tenth of one percent of all ad valorem property tax collections allocable to each taxing authority within all other counties of the first classification and one-fifth of one percent of all ad valorem property tax collections allocable to each taxing authority within counties of the second, third and fourth classifications and any county of the first classification having a population of at least 82,000 inhabitants, but less than 82,100 inhabitants, in addition to the amount prescribed by Section 137.720, RSMO will be deposited into the assessment fund of the county for collection costs.

FISCAL DESCRIPTION (continued)

(4) For purposes of calculating the tax due on the newly constructed commercial property, the assessor or the BOE will place the full amount of the assessed valuation on the tax book upon the first day of the month following occupancy. The assessed valuation must be taxed for each month of the year following the date at its new assessed valuation, and for each month of the year preceding the date at its previous valuation. The percentage derived from dividing the number of months at which the property is taxed at its new valuation by 12 will be applied to the total assessed valuation of the new construction and improvements, and the percentage will be included in the next year's base for the purposes of calculating the next year's tax levy rollback. The untaxed percentage will be considered as new construction and improvements in the following year and will be exempt from the rollback provisions.

(5) Provisions of this bill under (1) through (4) above will be effective in any county in which the governing body of the county elects to adopt a proposal to implement the provisions. The provisions will become effective in the county on January 1st of the year following the election.

(6) In any county that adopts (1) through (4) above, under the provisions of this bill, prior to June 1st in any year under (5) above, under the provisions of this bill, the assessor of the county must, upon application of the property owner, remove on a pro rata basis from the tax book for the current year any commercial real property improvements destroyed by a natural disaster, as defined in the bill, if the property is unoccupied and uninhabitable due to the destruction. On or after the July 1st, the BOE will perform such duties. Any person claiming destroyed property must provide a list of destroyed property to the county assessor. The assessor will have available a supply of appropriate forms on which claims will be made. The assessor may verify all the destroyed property listed to ensure that the person made a correct statement. Any person who completes such a list and, with intent to defraud, includes property on the list that was not destroyed by a natural disaster will, in addition to any other penalties provided by law, be assessed double the value of any property fraudulently listed. The list must be filed by the assessor, after he or she has provided a copy of the list to the county collector and the BOE, in the office of the county clerk who, after entering the filing thereof, will preserve and safely keep them. If the assessor, subsequent to the destruction, considers such property occupied as provided in (1) above, the assessor will consider such property new construction and improvements and will assess the property accordingly as provided in (1) above. Any political subdivision may recover the loss of revenue caused by the destruction of property under this bill by adjusting the rate of taxation, to the extent previously authorized by the voters of a political subdivision, for the tax year immediately following the year of the destruction in an amount not to exceed the loss of revenue caused by this section.

FISCAL DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Revenue
Department of Social Services
Office of the State Auditor
Ste Genevieve County Assessor's Office
Warren County Assessor's Office



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February 11, 2020



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